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Industrial Distribution

A CAHNERS PUBLICATION

February 1987

Hotline: Key distributor markets show signs of an upturn

VALUE ADDED: PROFIT-MAKER OR PROFIT-BREAKER?

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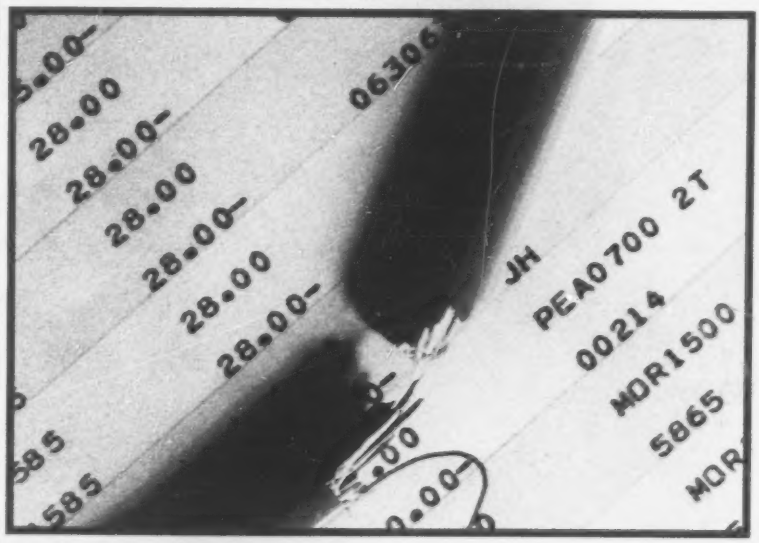
COVER STORY

Value added: profit maker or profit breaker?



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Indicators...

The *NIDA/SIDA Industrial Distribution Index* for the month of October jumped a full six points ahead of September's figures to a level of 150.4. In October of the previous year, the index stood at 148.9, a change of 1.5% year-to-date. Each of the four geographic locations also reported monthly gains: East 140.4 (+8.1); Midwest (+4.1); West (+8.6); and the South (+6.9). In October '86 and '85 comparisons, all regions except the Midwest indicated improvement: East (+2.4); West (+1.9); South (+13.6); and the Midwest (−1.9)...The *NIDA-/SIDA Industrial Supply Inflation Index* (1977 = 100) stands at 165.3 for the month of October, a 0.1% increase for the second straight month ahead of September's level of 165.1. A year ago the index stood at 163.4 in October, an increase of 1.2%...*SIDA's Monthly Sales Trend Report* for October showed a healthy gain of 6.69 points, although the index is 1.62 points lower than October '85 figures. Area IV of the Report, which includes the oil-belt states of AR, LA, OK, and TX, continued to indicate problems in that part of the country, as the index now stands 16.69 points below the previous year's mark. Area II (FL, GA, SC, PR) also showed a lackluster performance in the same comparison, down 8.04 points behind October 1985. Areas I (NC, VA, WV) and Area III (AL, KY, MS, TN) both fared considerably better advancing 6.68 and 6.82 points respectively. Of the 75 locations reporting results in the survey, 45 indicated an increase in October sales, and 26 responded with increased sales in an October '86 to '85 comparison...The ASMMA *Monthly Index of New Orders* inched slighly ahead in the month of October, up .3% from 120.0 to 120.3. By way of comparison, February indicated a monthly high of 120.1, and April recorded a low 116.0□

A manufacturer of industrial electric motors, a product line in which Baldor derives over 90% of its business, the company serves its end-users through 2000 distributors and another 2000 OEM's. Baldor, which employs over 2000 people, maintains manufacturing facilities in seven locations and has 31 regional warehouses.□

RB&W sells hardware division to Allied International

NEW YORK,NY—RB&W Corp. has announced the sale of its hardware division to Allied International-American Eagle Trading Corp. of Rye, New York. The company's chairman and

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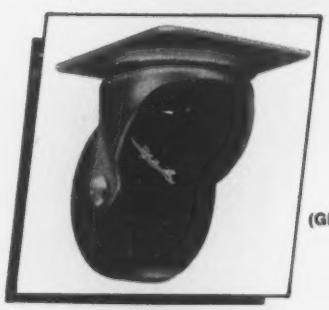

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BUSINESS REPORT

Living with slow growth

In the past year, our statistics showing % change in sales compared with the same month in the previous year (see graph), has not been up more than 5%, nor down more than 5%. Although other figures comparing previous months, as well as regional comparisons have bounced around a good deal more, especially in some parts of the country, the national trend of distributor sales has lazed along in a narrow range, reflecting the slow growth pattern which has avoided both recession and strong sales. If this trend continues, will distributors be less likely to take risks fearing low returns or long periods before recovering investment capital?

Says one southern distributor: "We're very cautious about getting in to new projects where we might be vulnerable. This slow growth helps few, and hurts a lot, and if things stay the same in the next few years, I hate to think of the annual increases we'd be forced to offer our employees. I don't know where else to cut expenses."

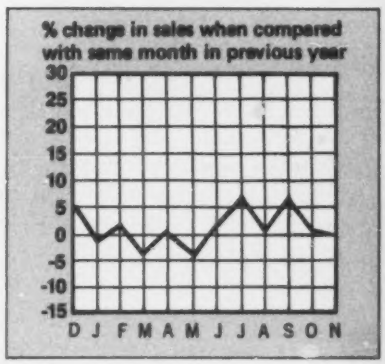
It is in this area of payroll where most distributors are looking to keep costs contained. One midwest distributor forced his outside salesmen out of any guaranteed draw, insisting they work on commission only, which heretofore had been the *modus operandi* of their two best salesmen, who also happened to have the two best territories.

Other distributor views ranged from changing insurance policies downgrading coverage to contingency plans for employee layoffs later in the year.

With 2.5% growth predicted for 1987 according to the country's leading conomists, distributors will have to continue to fight to keep their operations healthy. The one kicker that could change the near term outlook: a sharp increase in American exports triggering an expansion in manufacturing.

In regional reporting for November, sales nationally were even compared to last year. Month-to-month reporting was unanimously negative, showing a drop of 15%, Nov. vs. Oct, 1986. Receivables showed little change.

—Milt Ellenbogen



RECEIVABLES*

	Nov. '86 Gen.	Nov. '86 Spec	vs. Nov. '85 Gen.	vs. Nov. '85 Spec.
New England	44	47	47	47
Middle Atlantic	46	44	44	44
South Atlantic	37	38	34	37
East No. Central	40	41	43	44
East So. Central	44	35	42	35
West No. Central	42	39	38	42
West So. Central	43	40	46	37
Mountain	35	38	38	45
Pacific	41	41	42	41
National	41	40	42	41

* Average days outstanding

SALES BY REGIONS (% change)	Nov.'86 vs. Oct.'86 Gen.	Spec.	Both	Nov.'86 vs. Nov.'85 Gen.	Spec.	Both	1st 11 months'86 vs. 1st 11 months'85 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−17	−16	−17	−1	+5	+2	−7	−1	−4
Connecticut	—	−25	—	—	+6	—	—	−1	—
Massachusetts	−11	—	—	−5	—	—	−2	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−24	−15	−17	−10	−4	−5	−2	−1	−1
New York Metropolitan Area	—	−12	—	—	0	—	—	+1	—
Upstate New York	−29	−12	−21	−16	−2	−9	−3	−2	−3
Pennsylvania	−15	−19	−19	+3	−6	−4	0	−2	−1
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	−24	−18	−21	−10	−3	−6	−1	−2	−2
Georgia-Florida	—	−17	—	—	+3	—	—	−2	—
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−19	−21	−20	+1	−13	−7	−1	+3	+1
Indiana	−17	−16	−17	+13	0	+10	+9	+11	+9
Wisconsin	—	−29	—	—	−4	—	—	+6	—
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−26	−19	−21	−6	−23	−18	+3	+1	+2
Ohio	−17	−12	−15	−5	−13	−9	−10	0	−6
EAST SOUTH CENTRAL: AL,MS, KY, TN	−15	−13	−13	+12	+10	+10	+15	+2	+5
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−13	−16	−15	−3	+1	+2	+1	−2	0
WEST SOUTH CENTRAL: AK, LA,OK, TX	−8	−14	−11	+10	+7	+9	+2	+2	+2
Texas	—	−14	—	—	+7	—	—	+2	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	−20	−33	−26	+2	+10	+5	+3	+6	+4
PACIFIC: CA, OR, WA	+2	−14	−5	+12	+11	+11	+8	+3	+6
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	−16	—	—	+12	—	—	+6	—
U.S. TOTALS	−13	−17	−15	+2	−2	0	+1	+1	+1

FOCUS ON SERVICES

A look at hotel costs and services

With the cost of overnight travel continuing upward and distributor profit margins narrowing, the need to control hotel/travel costs has become imperative for maintaining a healthy bottom line.

A recent report conducted by **ID** entitled, *Industrial Distribution Hotel/Motel Usage Telephone Study*, examined the use of overnight lodging for business purposes by distributors.

The purpose of the report was, in part, to see how effectively distributors controlled their costs as they pertain to out-of-town travel, as well as to monitor those features most important in selecting a hotel/motel room for either overnight travel or holding sales meetings.

Nearly 60% of all distribution managers indicated that the typical overnight accommodation costs between $50-$120, and an average of 39 trips are taken each year. Add in automobile use, meals, airfare and incidentals, and it's not very difficult to see the need for tracking these expenditures.

Hotel/motel usage

According to the *1986-1987 Survey of Business Travel Policies and Costs* conducted by Runzheimer International, management consultants, if the typical business spends between $250,000 and $500,000 annually on travel, only then can it start to "systematically" manage travel related expenses. This is not to suggest that a company with a much smaller allowance cannot manage its costs, but the inference is that full time travel executives can seek cost efficiencies not normally pursued by smaller companies. For example, Runzheimer discovered that while 90% of all companies make use of corporate rates at hotels, only 60% negotiate their rates at frequently used hotel chains which, the survey reports, saved companies between $1000 and $25,000 each year.

In a similar question asked of the **ID** audience, only 32% responded "Yes" when asked if the company maintained a corporate account at those hotels they most frequented. If there are any lessons to be learned from this, then certainly it helps to have a full time travel manager monitoring these expenses.

But for most distributors this is not practical, as responsibility for watching travel costs alternately falls between the titular head of the sales force, or the company's owner. One suggestion in trying to lessen hotel expenses is to identify specific locations most frequented (such as near a major client), and approach a suitably located hotel with a cost containment package.

Of those companies surveyed in the Runzheimer report with 1985 travel expenditures of $250,000 or less, 17% reported an average discount of between 1%-6% through negotiated hotel rates, 27% achieved a 7%-10% discount, 20% an 11%-15% reduction, and another 20% saved 16%-20%. In actual dollar savings, the numbers come alive. In 1986, 21% of the respondents reported annual savings of between $1000-$5000, 17% saved $5001-$10,000, and 19% saved between $10,001-$25,000. Granted, these companies have much larger travel budgets than the typical industrial distributor, but for the price of a few telephone calls and an investment of only time, managing hotel expenses is not at all impossible.

TABLE I

AVERAGE NUMBER OF TRIPS REQUIRING HOTEL/MOTEL USAGE

How many out-of-town business trips require you and/or your sales staff to stay in a hotel and/or motel in . . .

An Average Month		An Average Year	
0	20.2%	1-5	11.0%
1-2	28.4	6-9	8.3
3-5	20.2	10-19	23.8
6-10	18.3	20-39	14.7
11-15	5.5	40-49	8.3
16-20	2.8	50-99	18.3
Don't Know	4.6	100 or more	11.0
		Don't know	4.6
Average:	4.1 trips	Average:	38.8 trips

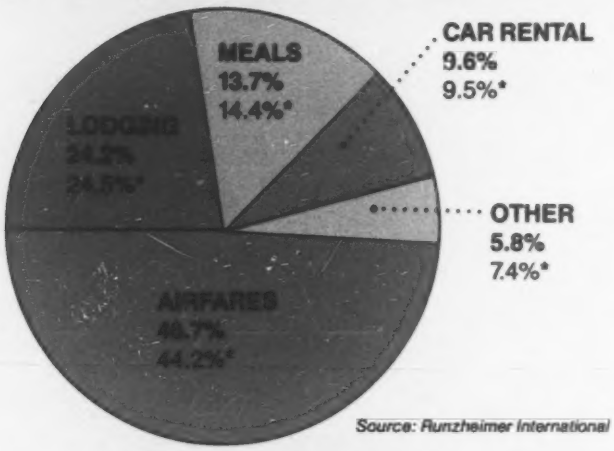
Source: Industrial Distribution

How does your company compare?

In an average month, reports the **ID** survey, 4.1 overnight trips are taken by the typical distributor's sales staff and management; 18% percent report that between 6-10 "hotel" trips are taken each month, while a roughly equal number indicates that 50-99 trips are taken annually. The average number of annual trips, however, is closer to 39. (See Table 1)

[*continued on page 50*]

FOCUS ON SERVICES...



Percent Of Travel Expenditures In Each Expense Category For 1986 *1984 figures

While on these trips, the vast majority of the *ID* audience, 71.5%, stayed overnight in a hotel less than two days; 19% three days; 3.7% four days, and 5.5% stayed five or more days.

What does your company spend?

By and large, it would seem as if the typical traveling salesman in the distribution business is a fairly thrifty individual, based on the average hotel expenditure per day on a business trip. When considering that a single night's stay in New York's Waldorf-Astoria (a Hilton hotel) costs between $145-$250 for a single, $66 seems all too reasonable an amount to pay for a bed, an unused dresser, and a city guide.

In fact, one-third of all respondents pay $49 or less for a hotel room, which indicates some thought is now used for business planning, although this probably increases for cities like New York which are considered the higher end of the market. (See Table II.)

Hotels or motels, a matter of taste

Ask anyone the difference between a hotel and a motel, and you are likely to get as many answers as questions posed. If "motorlodge" were to be thrown in as a wild card, the result could be unimaginable. Nonetheless, *ID* made just such a query of its readers, and revealed that most travelers had little preference. (See Table III.)

Although the survey found that only 30% of its traveling audience used hotel/ motel facilites solely for overnight stays, it also revealed that of those individuals, nearly 50% used other facilities at the hotel for sales meetings, customer orientation meetings (9.1%), conferences (40.9%), as well as for other purposes (15.9%). When queried as to whether or not food and drinks were provided at these functions, 90.9% indicated that they were in fact supplied.

Also interesting to note, were the size of the meetings/conferences held. Only 16% claimed that fewer than 10 people would be in attendance; 20% invited between 10-19; 43% between 20-29; and 18% invited more than 30.

TABLE II
AVERAGE HOTEL/MOTEL EXPENDITURES
Approximately, what is the average hotel/motel expenditure per day on a business trip?

Less than $40	10.1%
$40-$49	20.2
$50-$59	16.5
$60-$69	9.2
$70-$79	9.2
$80-$99	5.5
$100-$119	11.9
$120 or more	6.4
Don't know	11.0
Average:	$66

Source: Industrial Distribution

TABLE III
PREFERENCE OF HOTEL OR MOTEL
Do you prefer hotel or motel chains?

Hotel	23.9%
Motel	38.5
No preference	37.6

What's important

The final part of the *ID* survey took a look at what might be considered subjective reasoning, or to be a bit more fair, common sense business judgement. In exploring those features of a hotel or motel that were most important in the selection process, participants of the survey were asked to rate from "Very Important" to "Not Important At All" nine separate categories. What turned out to be the most important consideration of all, 36.3%, was the quality of the room, followed by the room's cost, 27.4%, and the ease in which one can check-in and out of the hotel, with a rating of 26.6%.

Summing up: you can do better

While some studies indicate that the actual cost of traveling has stabilized, increased pressure on companies to sell their wares in the marketplace simply means selling harder, and selling harder also means more traveling.

Simply put, increased competition demands more travel, and although travel cost-containment was previously for large companies only, cost-control methods can now be easily monitored and enforced at small to medium-sized companies as well.

"Less expensive means now exist to identify travel patterns and to pinpoint areas where costs can be reduced" says the Runzheimer study. By making use of computer generated management reports, many firms are now able to learn more about travel expenses. These reports compile and detail travel expense information, and a number of credit card companies will, for a fee, provide this information. In addition to technology helping to rein-in costs, suppliers, suggests Runzheimer, are now ready to provide more cost-effective service to companies. □ **John G.F. Bonnanzio**